

### Experiment Instructions

This is an experiment in the economics of decision making. If you follow these instructions closely and make a careful decision, you can earn money. Please do not communicate with any other student during the experiment.

In today's experiment, you are part of a large group. To start the experiment, we give every participant in your group an "initial balance" of \$20 each. You are free to spend your initial balance in any way that you wish. Once you have read and understood these instructions, you will be asked to divide your \$20 between a "private account" and a "group investment fund". You can put any amount between \$0 and \$20 into either account, but the total of the two accounts must equal \$20. Any money that you deposit in your private account is yours to keep and will be paid to you in cash.

The money you bid to the group investment fund will be combined with the money received from all other members of your group. The combined group fund can purchase "shares" at a price of 1 cent each. However, the fund can only purchase up to, but no more than, 25,000 shares. Hence, all available shares will be purchased only if the sum of bids made to the investment fund by members of your group equals or exceeds \$250.

If the sum of all bids made by members of your group is below \$250, all the money received by the group fund will be used to purchase shares. Each member of your group will receive a personal payoff for each share purchased by the group fund. The personal payoff you could receive for each share purchased by the group fund is indicated in Table 1 of the attached "Information and Decision Sheet". Table 1 also indicates the maximum possible personal payoff that you could receive from the group fund if all 25,000 shares were purchased. Look at your Information and Decision Sheet now to see what your personal payoff for each share and maximum personal payoff are. Your personal payoff depends only on the sum of bids made to the group fund.

Note that you have been randomly assigned to your personal payoff per share and that the personal payoffs of other members of your group may differ from yours.

Your earnings for the experiment depend on how you choose to divide your initial balance of \$20 between your private account and the group fund, and on the sum of bids to the group fund. There are three possible outcomes:

**FIRST POSSIBLE OUTCOME: the sum of bids to the group fund is LESS than \$250.** In this case, all bids will go toward the purchase of shares at 1 cent each. You and all other members of your group will receive a personal payoff from the group investment fund. Your payoff would be equal to the number of shares purchased by the fund times your personal payoff per share. Your earnings for the experiment would be equal to the amount you deposit in your private account, plus your personal payoff.

**Calculation of your personal payoff when the sum of the bids to the group fund is less than \$250.** When the sum of bids to the group fund is less than \$250, your personal payoff is directly proportional to the amount of money placed in the group fund. For example, if the sum of bids made to the group fund is \$125 (rather than \$250), only 12,500 shares (rather than 25,000 shares) would be purchased and you would receive half of the maximum personal payoff shown in Table 1.

**SECOND POSSIBLE OUTCOME: the sum of bids to the group fund is EXACTLY \$250.**

If the sum of bids equals \$250, the group fund will purchase all 25,000 shares. In this case, you will receive your maximum personal payoff from the investment. Every other member of your group will also receive their maximum personal payoff from the investment. Therefore, if \$250 is received in the group fund, your earnings for the experiment would be equal to the amount you deposit in your private account, plus your maximum personal payoff from the group fund.

**THIRD POSSIBLE OUTCOME: the sum of bids to the group fund is GREATER than \$250.** If the sum of bids exceeds \$250, the group fund will purchase all 25,000 shares. In this case, you will receive your maximum personal payoff from the investment. Every other member of your group will also receive their maximum personal payoff from the investment. Therefore, if the sum of bids exceeds \$250, your earnings for the experiment would be the amount you deposit in your private account, plus your maximum personal payoff from the group fund. Note that no matter how much money is contributed to the group fund, no more than 25,000 shares can be purchased. This limits your potential personal payoff to the maximum indicated in Table 1.

## **SUMMARY:**

- You are part of a large group.
- You and all other group members have received \$20 each.
- You must decide how much of your \$20 to deposit into a private account and how much to bid into a group investment fund.
- If the sum of bids to the group fund is less than \$250, the money will be invested in the purchase of shares at the price of 1 cent per share. Your earnings for the experiment would be the amount you deposited in your private account, plus your personal payoff per share times the number of shares purchased.
- If the sum of bids to the group fund is equal to \$250, all 25,000 shares available will be purchased by the group fund and you will receive the maximum personal payoff indicated on the attached information sheet. Your earnings for the experiment would be the amount you deposited in your private account plus your maximum personal payoff.
- If the sum of bids to the group fund is greater than \$250, all 25,000 shares will be purchased by the group fund and you will receive the maximum personal payoff indicated on the attached information sheet. Your earnings for the experiment would be the amount you deposited in your private account plus your maximum personal payoff.

You must now decide how to divide your \$20 between your private account and the group investment fund. To indicate your decision, you must fill out the bottom portion of the attached decision sheet, including your name and social security number (this is necessary for you to be paid for the experiment). Please indicate how much of your \$20 you are depositing in your private account and how much you are bidding into the group investment fund. Make sure that the sum of these two amounts equals \$20.

Once everyone has completed the form, these instructions and the form will be collected. This will end the experiment. Your deposit and bid amounts will be entered into a computer along with those of all other members of your group to determine the level of investment by the group fund and to calculate your earnings. Your earnings in today's experiment will be paid to you in cash at the end of class next Wednesday.

**All information regarding your personal bid and earnings is strictly confidential  
and will not be revealed to anyone.**

*It is very important that you understand these instructions.*

*Raise your hand if you have any questions.*

**INFORMATION AND DECISION SHEET**

**Table 1 – Summary Information**

<b>Your Initial Balance</b>	<b>\$20.00</b>
<b>Your PERSONAL PAYOFF FOR EACH SHARE purchased by the group fund (up to 25,000 shares)</b>	<b>\$0.00024</b> (equals 2.4 cents for each 100 shares)
<b>Your MAXIMUM PERSONAL PAYOFF (25,000 shares x \$0.00024) =</b>	<b>\$6.00</b>

**BIDDING FORM**    *PLEASE WRITE LEGIBLY....WRITE LEGIBLY...LEGIBLY*

NAME (please print clearly): \_\_\_\_\_

Social Security Number (please print clearly): \_\_\_\_\_ - \_\_\_\_\_ - \_\_\_\_\_

**INDICATE HOW YOU WANT TO DIVIDE YOUR INITIAL BALANCE OF \$20 BETWEEN YOUR PRIVATE ACCOUNT AND THE GROUP INVESTMENT FUND (make sure that the sum of the two amounts equals \$20.00):**

My deposit to my PRIVATE ACCOUNT is (please print clearly):        \$ \_\_\_\_\_

My bid to the GROUP INVESTMENT FUND is (please print clearly): \$ \_\_\_\_\_